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**Argyll and Bute Council**
**Comhairle Earra-Ghàidheal Agus Bhòid**

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14 February 2019

# NOTICE OF MEETING

A meeting of **ARGYLL AND BUTE COUNCIL** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **THURSDAY, 21 FEBRUARY 2019** at **11:30 AM**, or at the conclusion of the Special Council Meeting, whichever is the later, which you are requested to attend.

Douglas Hendry
Executive Director - Customer Services

# BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTERESTS (IF ANY)**

3. **MINUTES**
Argyll and Bute Council of 29 November 2018 (Pages 3 - 10)

4. **MINUTES OF COMMITTEES**

(a) Environment, Development and Infrastructure Committee of 6 December 2018 (Pages 11 - 14)

* (b) Community Services Committee of 11 December 2018 (Pages 15 - 28)

* (c) Policy and Resources Committee of 13 December 2018 (Pages 29 - 38)

* (d) Policy and Resources Committee of 14 February 2019 (to follow)

The above minutes are submitted to the Council for approval of any recommendations on the items which the Committee does not have delegated powers. These items are marked with an *.

5. **BUDGETING PACK 2019/20**
   1. **Introductory Report and Recommendations for Budget Papers**

   2. **Revenue Pack**
      **a)** Budget Consultation – Findings Report
      **b)** Service Plans 2019-22
      **c)** Budget Savings - Assessing Equality and Socio Economic Impact
      **d)** Revenue Budget Overview
      **e)** Report on Fees and Charges

**f)** Revenue Budget Monitoring 2018-19 as at 31 December 2018
**g)** Report on Financial Risks Analysis
**h)** Report on Reserves and Balances

**3. Capital Plan**
**a)** Capital Plan Summary
**b)** Corporate Asset Management Strategy
**c)** Corporate Asset Management Plan / Asset Group Summaries

Please note that the Budget Pack 2019/20 relative to the consideration of the foregoing matters has been published separately under a meeting entitled “Budget Pack”, please ensure that you have downloaded this to your iPad before coming to the meeting.

Accessing the Budget Pack from your iPad:-
To access this years’ Budgeting Pack 2019/20, Members should log onto the Modern.Gov App on their iPad and tap “Committees…”on top of the left hand side of the screen. From there subscribe to the meeting entitled “Budget Pack” by tapping on it and tap done. This should now appear on your list of Committees. The Budget Pack will be stand alone and will be published here separately from the Policy and Resources Committee and Council agendas. This will enable the same pack to be accessed at all meetings.

**6. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY**
Report by Head of Strategic Finance (Pages 39 - 96)

**ARGYLL AND BUTE COUNCIL**

Contact: Sandra Campbell Tel: 01546 604401

Agenda Item 3

**MINUTES of MEETING of ARGYLL AND BUTE COUNCIL held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on THURSDAY, 29 NOVEMBER 2018**

**Present:** Councillor Roderick McCuish (Chair)

Councillor Jim Anderson
Councillor John Armour
Councillor Gordon Blair
Councillor Rory Colville
Councillor Robin Currie
Councillor Lorna Douglas
Councillor Jim Findlay
Councillor George Freeman
Councillor Audrey Forrest
Councillor Bobby Good
Councillor Kieron Green
Councillor Anne Horn
Councillor Donald MacMillan
Councillor David Kinniburgh
Councillor Yvonne McNeilly
Councillor Barbara Morgan
Councillor Aileen Morton
Councillor Iain Paterson
Councillor Alastair Redman
Councillor Alan Reid
Councillor Elaine Robertson
Councillor Richard Trail
Councillor Sandy Taylor
Councillor Andrew Vennard
Councillor Jean Moffat
Councillor Jim Lynch
Councillor Graham Archibald Hardie

**Attending:** Cleland Sneddon, Chief Executive
Douglas Hendry, Executive Director of Customer Services
Pippa Milne, Executive Director of Development and Infrastructure
Charles Reppke, Head of Governance and Law
Kirsty Flanagan, Head of Strategic Finance
Joanna MacDonald, Chief Officer, Health and Social Care Partnership
Martin Caldwell, Chair of Audit and Scrutiny Committee
Alex Taylor, Chief Social Work Officer
Sally Amor, Child Health Commissioner/Public Health Specialist

## 1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated from Councillors Devon, Kelly, McGrigor, McKenzie, E Morton, Mulvaney, Philand and Provost Scoullar.

The Depute Provost ruled, and the Council agreed, that the business dealt with at Item 20 of this Minute be dealt with as a matter of urgency by reason of the need to take a decision before the next meeting.

## 2. DECLARATIONS OF INTEREST

Councillors Horn, Robertson and Vennard each declared a non-financial interest in Item 18 of the agenda (Colonsay New Build Compulsory Purchase Order) as they were Board members of the West Highland Housing Association.

Councillors Anderson and Hardie each declared a non-financial interest in Item 17 of the agenda (3G Pitches and Proposals for Ongoing Maintenance) as they were Board members of Live Argyll.

## 3. MINUTES

(a) **Argyll and Bute Council of 27 September 2018**

The Minutes of the Argyll and Bute Council Meeting held on 27 September 2018 was approved as a correct record.

(b) **Special Argyll and Bute Council 18 October 2018**

The Minutes of the Special Argyll and Bute Council Meeting held on 18 October 2018 was approved as a correct record.

**4. MINUTES OF COMMITTEES**

(a) **Policy and Resources Committee of 18 October 2018**

The Minute of the Policy and Resources Committee held on 18 October 2018 was noted.

Arising from Item 7 (Procurement Strategy and Policy) the Council approved the revised draft Procurement Strategy 2019/20 and the Sustainable Procurement Policy 2019/20.

**5. DIRECTOR OF PUBLIC HEALTH ANNUAL REPORT 2018**

The Council heard an informative presentation by Sally Amor, Child Health Commissioner/Public Health Specialist together with a report on Adverse Childhood Experiences, Resilience and Trauma Informed Care. Members were given the opportunity to ask questions and then the Depute Provost formally thanked Sally for her presentation to the Council.

**Decision**

The Council:-

1. Noted the importance of offsetting the effect of childhood adversity as detailed in the 2018 Director of Public Health Annual Report on Adverse Childhood Experiences.

2. Supported the principle of the Argyll and Bute Health and Social Care Partnership working as a trauma informed and trauma responsive health and social care service.

(Ref: Report and Presentation by the Child Health Commissioner dated 31 October 2018, submitted)

**6. CHIEF SOCIAL WORK OFFICER - ANNUAL REPORT 2017-18**

The Council received a presentation on the Chief Social Work Officer Annual Report by Alex Taylor. The Annual report focused on an overview of Social Work activity undertaken across Argyll and Bute during the year together with spend across all social work services, the priorities and the challenges. Members were given the opportunity to ask questions and then the Depute Provost formally thanked Alex for his presentation to the Council.

**Decision**

The Council considered the contents of the report and recommended it’s formal submission to Scottish Government.

(Ref: Report by Alex Taylor, Chief Social Work Officer dated September 2018, submitted)

**7. AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2017-2018**

The Council gave consideration to a report and presentation prepared by the Chair of the Audit and Scrutiny Committee, Martin Caldwell which provided an overview of the Audit and Scrutiny Committee's activity during the financial year 2017-18 and which gave Members assurance that the Committee continued to focus its efforts on effectively discharging its duties in accordance with published guidance. The Depute Provost formally thanked Martin for his presentation to the Council.

**Decision**

The Council acknowledged the activity of the Audit and Scrutiny Committee during 2017/18, with thanks to the Chair and Committee Members.

(Ref: Report by Chair of the Audit and Scrutiny Committee dated 29 November 2018, submitted)

**8. LEADER'S REPORT**

The Council gave consideration to a report providing an update on the activities of the Leader of Argyll and Bute Council from 15 September to 15 November 2018, together with an update from the Policy Lead from the Policy Lead for Economic Development.

**Decision**

1. The Council noted the terms of the report.

2. Noted that the full Leaders report pack was available in the Leader's Office which included COSLA papers and briefings as referenced in the report.

3. Noted that any COSLA items heard in public session could be provided to Members electronically and any items taken in private session could be reviewed in the Leader's Office.

(Ref: Report by Leader of the Council dated 15 November 2018, submitted)

**9. POLICY LEADS REPORT**

The Council gave consideration to a report providing an update on key areas of activity for each Policy Lead Councillors.

**Decision**

The Council agreed to note and endorse the terms of the report.

(Ref: Report by Policy Leads dated 15 November 2018, submitted)

**10. AUDITED ACCOUNTS 2017-18 AND AUDIT SCOTLAND ANNUAL AUDIT REPORT 2017-18**

The Council gave consideration to a report which advised that the external auditors, Audit Scotland had completed their audit of the Council's Annual Accounts for 2017/18 together with the Charitable Trusts. The audited accounts and its Charitable Trusts, incorporating the audited certificates were also submitted which contained no qualifications. Members also gave consideration to Audit Scotland's 2017/18 Annual Audit report.

**Decision**

The Council:-

1. Noted the unqualified certificates have been issued for both the Council Accounts and the Charitable Trusts and these have been included within the Accounts on the Councils website.

2. Noted the content of Audit Scotland's Annual Audit Report for 2017/18.

(Ref: Report by Executive Director of Customer Services dated 31 October 2018, submitted)

**11. STRATEGIC HOUSING INVESTMENT PLAN (SHIP) 2019/20 - 2023/24**

The Council considered a report which advised of the revised Strategic Housing Investment Plan 2019/20 – 2023/24 which was submitted in draft form to the Scottish Government in October 2018. The core purpose of the SHIP is to set out strategic investment priorities for affordable housing over a five year period to achieve the outcomes set out in the Local Housing Strategy.

**Decision**

The Council:-

1. Approved the SHIP proposals summarised in the report which has been submitted to the Scottish Government in October 2018.

2. Approved to commit to maximising the use of the Strategic Housing Fund to support the SHIP programme.

(Ref: Report by the Executive Director of Development and Infrastructure Services dated November 2018, submitted)

**12. LOCAL GOVERNANCE REVIEW - DEMOCRACY MATTERS - RESPONSE TO CONSULTATION**

The Council gave consideration to the draft consultation response on the Local Governance Review as part of the programme for Scottish government 2017-18.

**Decision**

The Council agreed the response to the Local Governance Review / Democracy Matters consultation and requested the Chief Executive to submit the agreed response before the deadline of 14 December 2018.

(Ref: Report by Chief Executive dated 30 October 2018, submitted)

**13. DRAFT PROGRAMME OF MEETINGS 2019-2020**

The Council gave consideration to a draft programme of meetings for the year 2019/20 based on the current Committee cycle.

**Decision**

The Council agreed the draft Programme of Meetings for the year 2019/20 with the caveat that the Community Services Committee scheduled for August 2019 may be changed.

(Ref: Report by Executive Director of Customer Services dated 2 October 2018, submitted)

## 14. HOW ARGYLL AND BUTE REMEMBERED

The Council considered a report and a short presentation from the Head of Governance and Law which advised of a booklet that introduces and illustrates the various events that have been held to mark the 100 year commemoration of World War One. The Council were asked to note and approve the outline of the booklet.

**Decision**

The Council:-

1. Considered the proposed booklet and noted additional events/activities for inclusion within the booklet from members which would be included in the final version.

2. Agreed to make the booklet publically available to mark the 100 year commemoration of World War One.

3. Recorded its appreciation to all the communities across Argyll and Bute for their commitment and strong partnership working in delivering many of these events and their contribution in undertaking additional local commemorative activities.

4. Recorded its appreciation to all the Members of the World War 1 Commemoration Steering Group for their commitment, inspiration and hard work in leading the commemorative centenary programme and ensuring Argyll and Bute remembered in a way that leaves a lasting legacy for future generations.

(Ref: Report by Executive Director of Customer Services dated 30 October 2018, submitted)

## 15. APPOINTMENT OF RECRUITMENT PANEL - POST OF HEAD OF ADULT SERVICES (HEALTH AND SOCIAL CARE PARTNERSHIP)

The Council considered a report which invited Members to establish an Appointments Panel to appoint to the post of Head of Adult Services (Health and Social Care Partnership).

**Decision**

The Council:-

1. Agreed to establish an Appointments Panel for the recruitment of the Head of Adult Services (Health and Social Care Partnership).

2. Agreed to the set-up of an Appointments Panel of 3 members each from the Council being Councillor A. Morton, Councillor K. Green, Councillor S. Taylor, Councillor G. Mulvaney as a substitute and 3 from the NHS Board HSCP Members who sit on the IJB to be advised to the Executive Director of Customer Services in due course.

3. Delegated the arrangements for the Appointment process to the Head of Improvement and HR.

4. Agreed that the same Appointments Panel be convened in the event of a further vacant Chief Officer post arising within the Health and Social Care Partnership.

(Ref: Report by Executive Director of Customer Services dated 29 November 2018, submitted)

**16. YEAR 3 ARGYLL AND BUTE REFUGEE RESETTLEMENT PROGRAMME**

The Council considered a report which advised of the third annual evaluation of the Refugee Resettlement Programme informed by the feedback of the families rebuilding their lives in Argyll and Bute.

**Decision**

1. The Council noted the continued good work of the Refugee Resettlement Group and the local community in resettling Syrian refugees on the Island of Bute.

2. The Council agreed to continue to resettle refugees on the Island of Bute, through the Syrian Vulnerable Persons Relocation Scheme until the close of the current programme likely to be in 2020.

(Ref: Report by Executive Director of Customer Services dated October 2018, submitted)

**17. 3G PITCHES AND PROPOSALS FOR ONGOING MAINTENANCE**

The Council considered a report which detailed the 3G pitches that had been transferred under licence to the charitable trust together with a further pitch which had been transferred under licence to Argyll College. The report proposed that surplus funding originally allocated for 3G pitch enhancements is utilised to fund the Council carrying out routine maintenance at the pitches detailed in Table 1 of the report.

**Decision**

The Council approved the remainder of the allocation for 3 G pitches to be utilised to fund the Council carrying out routine maintenance at the pitches as detailed in Table 1 at paragraph 4.3 and the maintenance frequency detailed in Appendix 1. The available funding providing for 6.5 years of maintenance for the 3G pitches, after which there will be a cost pressure to the Council for continued maintenance.

(Ref: Report by Executive Director of Development and Infrastructure Services dated October 2018, submitted)

The Depute Provost adjourned the meeting at 1.05pm and re-convened at 1.45pm.

Councillor Horn left the meeting at this point.

The Council resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public for the following three items of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraphs 6&9 and 1 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

**E1 18. COLONSAY NEW BUILD COMPULSORY PURCHASE ORDER**

The Depute Provost adjourned the meeting at 1.45pm and reconvened at 1.55pm.

The Council considered a report which advised of the option of using a Compulsory Purchase Order (CPO) to obtain a piece of land in order to allow the development of 5 New Build affordable houses on Colonsay.

**Decision**

The Council agreed to the recommendations as outlined in the submitted report.

(Ref: Report by Executive Director of Development and Infrastructure Services dated November 2018, submitted)

**E1 19. KINTYRE RECYCLING LIMITED**

The Council considered a report which provided Members with an overview of the Council's contract with Kintyre Recycling Limited.

The Depute Provost adjourned the meeting at 2.35pm and reconvened at 2.45pm.

**Decision**

The Council:

1. Noted the update provided.

2. Agreed that subject to the submission of evidence that an overspend has been incurred the Council will fund any shortfall in KRL's financial year 2018/19, after the draw-down of the HIE grant, up to a maximum of £32k. This funding if required would come from the unallocated General Fund Reserve. The provision of any funding being subject to the approval of the Executive Director of Development and Infrastructure, in consultation with the Head of Strategic Finance.

3. Agreed that a further report as part of the budget process is brought back to members which will clearly demonstrate the financial implications of the delivery of the collection of recycling material presently undertaken by KRL.

Councillor Freeman, having moved an Amendment which failed to find a seconder, required his dissent from the foregoing decision to be recorded.

(Ref: Report by the Executive Director of Development and Infrastructure Services dated 29 November 2018, submitted)

**E2 20. COUNCIL CONSIDERATION OF ABSENCE**

The Council considered a report which advised that in terms of the Local Government Scotland Act 1973, Section 35, if a Councillor fails to attend meeting for a continuous period of 6 months then they cease to be a Councillor unless prior approval to the absence has been taken by the Council.

**Decision**

The Council approved the absence from Council Business of a Councillor due to illness until 30 April 2019, or until their return to business whichever is the earlier.

(Ref: Report by Executive Director of Customer Services dated 29 November 2018, tabled)

Agenda Item 4a

**MINUTES of MEETING of ENVIRONMENT, DEVELOPMENT AND INFRASTRUCTURE COMMITTEE held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on THURSDAY, 6 DECEMBER 2018**

**Present:** Councillor Roderick McCuish (Chair)

Councillor John Armour
Councillor Gordon Blair
Councillor Donald MacMillan
Councillor Aileen Morton
Councillor Ellen Morton
Councillor Alastair Redman
Councillor Alan Reid
Councillor Jim Findlay

**Also Present:** Councillor Elaine Robertson, Councillor Sandy Taylor

**Attending:** Pippa Milne, Executive Director – Development and Infrastructure
Jim Smith, Head of Roads and Amenity Services
Iain MacInnes, Digital Liaison Officer
Patricia O'Neill, Central Governance Manager

**1. APOLOGIES FOR ABSENCE**

There were apologies from absence intimated on behalf of Councillors Bobby Good, Donald Kelly, David Kinniburgh, Sir Jamie McGrigor and Andrew Vennard.

**2. DECLARATIONS OF INTEREST**

There were none intimated.

**3. MINUTES**

The Minutes of the meeting of the Environment, Development and Infrastructure Committee held on 6 September 2018 were approved as a correct record.

**4. OFCOM - IMPROVING DIGITAL CONNECTIVITY**

The Digital Liaison Officer gave a brief presentation on behalf of Ofcom and advised that Ofcom would be providing a private development session for all Councillors at the conclusion of the Committee.

**5. DEVELOPMENT AND INFRASTRUCTURE SERVICES - PERFORMANCE REPORT FQ2 2018-19**

The Environment, Development and Infrastructure Committee gave consideration to the Development and Infrastructure Services departmental performance report with associated scorecard for performance in FQ2 2018/19.

**Decision**

The Environment, Development and Infrastructure Committee noted the Development and Infrastructure Services departmental performance report with associated scorecard for performance in FQ2 2018/19.

(Reference: Report by Executive Director – Development and Infrastructure Services dated December 2018, submitted)

**6. DRAFT SERVICE PLANS 2019-2022 FOR 2019/20 BUDGET ALLOCATION**

The Draft Service Plans 2019-2022 for the 2019/20 budget allocation were given consideration by the Committee. Service Plans set out the Business Outcomes that each Service will work to deliver over the period of the Plan.

**Decision**

The Environment, Development and Infrastructure Committee –

1. Approved the Draft Service Plans 2019-2022 for the 2019/20 budget allocation.

2. Noted that the budget allocation would be proposed at the Policy and Resources Committee on 14 February 2019 for final approval by the Council on 21 February 2019.

(Reference: Report by Executive Director – Development and Infrastructure Services dated December 2018, submitted)

**7. ANNUAL STATUS AND OPTIONS REPORT**

The Committee gave consideration to the Annual Status and Options report which made an analytical assessment of the condition of the Council’s road network and associated infrastructure as well as setting out projected conditions based on varying levels of investment.

**Decision**

The Environment, Development and Infrastructure Committee –

1. Endorsed the Annual Status and Options Report and the positive analytical feedback that it provided with regard to the improvement of the Council’s Road Condition Index as a result of the ongoing investment in roads reconstruction works.

2. Noted that the Annual Status and Options Report informs key elements of the Development and Infrastructure Asset Management Plan that in turn informs the budget setting process.

(Reference: Report by Executive Director – Development and Infrastructure Services dated December 2018, submitted)

**8. PUBLIC CONVENIENCES**

The Committee gave consideration to a report which provided an update on the work to date to explore alternative, sustainable options for the public convenience estate; and which gave options to look at the asset group in more detail.

**Decision**

The Environment, Development and Infrastructure Committee agreed –

1. The principle of charging at the high footfall facilities, with a further report on cash-operated entry systems to come forward in the new year.

2. That franchise options can only be reasonably explored once charging is in place at the high footfall facilities.

3. That honesty boxes should be installed at the medium footfall facilities for a trial period of one year ahead of a further review.

4. That the facilities identified as low use, along with those that are currently closed and those which are subject to third party management arrangements, be actively promoted for community ownership for a period of one year ahead of a further review.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 21 November 2018, submitted)

**9. CAMPBELTOWN FLOOD PROTECTION SCHEME**

The Committee gave consideration to a report that informed them on the outcome of the appraisal of flood risk management options for properties at risk of flooding in Campbeltown as part of the Campbeltown Flood Prevention Scheme project. The report drew particular attention to the future financial investment by the Council for the project to proceed.

**Decision**

The Environment, Development and Infrastructure Committee –

1. Noted that the modelling of flood protection options has been completed, with clear recommendations for solutions eligible for Scottish Government funding to be taken forward to the next stage of investigation, design and planning approvals.

2. Requested that the Council, as part of the budget process, allocate the project £127k of capital and consider the potential need for additional funding in 20/21 through to 22/23.

3. Acknowledged the final scheme would be subject to approval of Outline Business and Full Business cases, which are expected to be submitted late 2019 prior to tender and late 2020 prior to tender award respectively and if approved additional funding may be needed as indicated in table 1 within the submitted report.

(Reference: Report by Executive Director – Development and Infrastructure Committee dated November 2018, submitted)

**10. WINTER SERVICE POLICY 2018/19**

The Council’s Winter Service Policy was before the Committee for approval. The format and general content of the Winter Service Policy 2018/19 remained the same as it had been in 2017/18.

**Decision**

The Environment, Development and Infrastructure Committee approved –

1. The 2018/19 Winter Maintenance Policy at Appendix 2 to the submitted report.

2. The Salt Use Reduction and Preservation of Stocks Protocol at Appendix 4 to the submitted report.

(Reference: Report by Executive Director – Development and Infrastructure Services dated November 2018, submitted)

**11. TRANSFORMATION PROJECTS AND REGENERATION TEAM - LARGE SCALE PROJECT UPDATE REPORT**

The Committee gave consideration to a report which provided an update on progress in delivering the larger scale project work of the Transformation Project and Regeneration Team with a focus on those projects that are mainly externally funded. The report also highlighted the key issues that would impact on the successful delivery of the projects.

**Decision**

The Environment, Development and Infrastructure Committee noted the current process as contained within the submitted report.

(Reference: Report by Executive Director – Development and Infrastructure Services dated October 2018, submitted)

**12. ENVIRONMENT, DEVELOPMENT AND INFRASTRUCTURE COMMITTEE WORKPLAN - DECEMBER 2018**

The Environment, Development and Infrastructure Committee Workplan as at December 2018 was before the Committee for noting.

**Decision**

The Environment, Development and Infrastructure Committee noted the content of the Workplan as at December 2018.

(Reference: Environment, Development and Infrastructure Workplan as at December 2018, submitted)

**MINUTES of MEETING of COMMUNITY SERVICES COMMITTEE held in the COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on TUESDAY, 11 DECEMBER 2018**

**Present:** Councillor Yvonne McNeilly (Chair)

| | |
|---|---|
| Councillor Jim Anderson | Councillor Iain Paterson |
| Councillor Robin Currie | Councillor Alan Reid |
| Councillor Mary-Jean Devon | Councillor Elaine Robertson |
| Councillor Lorna Douglas | Councillor Andrew Vennard |
| Councillor Kieron Green | Margaret Anderson |
| Councillor Graham Archibald Hardie | William Hamilton |
| Councillor Anne Horn | Alison Palmer |
| Councillor Barbara Morgan | |

**Attending:** Douglas Hendry, Executive Director – Customer Services
Anne Paterson, Head of Education: Lifelong and Support
Louise Connor, Head of Education: Learning and Teaching
Alex Taylor, Head of Children and Families
Stuart McLean, Area Committee Manager
Alison MacDonald, Education Manager: Performance and Improvement
Donald McAllister, Education Manager: Curriculum 2 -18
Martin Turnbull, Youth Services Manager
Roslyn Redpath, Principal Educational Psychologist
Douglas Whyte, Team Lead – Housing Strategy
Bill Halliday, Team Lead - Housing Operations
Superintendent Brian Gibson, Police Scotland
Chief Inspector Douglas Wilson, Police Scotland
Paul Devlin, Local Senior Officer Scottish Fire and Rescue Service
Stephen Whiston, Head of Strategic Planning & Performance, Argyll and Bute HSCP.

The Chair intimated that Councillor Douglas Philand who was not a member of the Community Services Committee, had notified her that he wished, in terms of Standing Order 22.1, to speak and vote on item 5 of the Agenda. The Chair exercised her discretion to allow Councillor Philand to speak but not vote on item 5.

## 1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Rory Colville, Jim Lynch, Barbara Morgan and Julie McKenzie and from William Stewart Shaw, Church Representative.

## 2. DECLARATIONS OF INTEREST

There were no declarations of interest.

**3. MINUTE**

The Minute of the Community Services Committee meeting held on 23 August 2018 was approved as a correct record.

**4. OPTIONS APPRAISAL FOR THE PROVISION OF GAELIC MEDIUM EDUCATION IN OBAN**

At the Community Services Committee on 23 August 2018 Officers were requested to continue their evaluation of a Feasibility Study into a new Gaelic Medium Primary School in Oban. This exercise was completed and has led to consideration of a number of different options to deliver Gaelic Medium Education in the Oban area. A report presenting these options was before the Committee for consideration.

**Decision**

The Committee:

1. considered the evaluation of the options for delivering Gaelic Medium Education in the Oban area;

2. agreed that Option B is the recommended option based on an evaluation of impact, deliverability, affordability and risk and further agreed that in the event there was a material change in circumstances Officers would give further consideration to the other options that have been identified in the report; and

3. requested that the Executive Director of Customer Services contacts Comann nam Pàrant an Òbain declining the request to undertake a formal consultation process to establish a Gaelic Medium School in Oban at this time.

(Reference: Report by Executive Director – Customer Services dated 1 November 2018, submitted)

**5. SCHOOLS CONSULTATION ACT 2010 - ARDCHATTAN/ASHFIELD PRIMARIES**

A report providing details of the options appraisals for Ardchattan and Ashfield Primary Schools in satisfaction of the Preliminary Requirements of Section 12A of the Schools (Consultation) (Scotland) Act 2010 as amended was considered. Copies of representations received in respect of Ashfield Primary School were also circulated to the Committee.

The Committee heard from Councillor Philand who spoke on behalf of those who had expressed concerns in their submitted representations in respect of Ashfield Primary School.

**Decision**

The Committee agreed:

1. to note the outcome of consideration of the preliminary requirements; and

2. that Officers now formulate a draft proposal and bring this back to the next meeting of the Committee for approval by Members which would subsequently

trigger the formal consultation process under the Schools (Consultation) (Scotland) Act 2010.

(Reference: Report by Executive Director – Customer Services dated 15 November 2018, submitted)

## * 6. SCHOOL CATCHMENT AREAS REZONING POLICY

At the meeting of the Community Services Committee on 11 September 2014 it was agreed to approve a process by which future requests to alter the catchment area of a school be considered, as detailed in Section 4.3 – 4.10 of the report presented at that time. A report which reconsiders this policy in light of recent developments and with regard to the provisions of the Schools (Consultation) (Scotland) Act 2010 was before the Committee for consideration.

**Decision**

The Committee agreed to recommend to Council:

1. to discontinue the policy adopted on 11 September 2014 in relation to dealing with requests to alter the catchment area of a school;

2. to note that the relevant Area Committee would be given the opportunity to comment as part of a consultation exercise; and

3. to return to the previous process, similar to that for other proposals under the 2010 Act, whereby requests to alter the catchment area of a school are brought before the Community Services Committee for a decision to be made on whether that request is adopted as a ‘relevant proposal’ to be progressed to a public consultation under the 2010 Act.

(Reference: Report by Executive Director – Customer Services dated 2 November 2018, submitted)

## 7. JOINT INSPECTION OF CHILDREN'S SERVICES

Notification of the Argyll and Bute Joint Inspection of Children’s Services was received on 20 June 2018. The Care Inspectorate and its partner agencies are inspecting the services for children, young people and families that are delivered across Argyll and Bute by the Community Planning Partnership. Argyll and Bute is the first partnership in Scotland to be inspected to the revised quality improvement framework published in August 2018. The inspection report will be published in March 2019 and will set out what works well and what could improve. The Community Planning Partnership will be expected to take action on any recommendations the inspectors make for improvements. A report providing the Committee with a note of the preparation and activity that has taken place across Argyll and Bute in support of the Joint Inspection of Children’s Services was before the Committee for consideration.

**Decision**

The Committee agreed:

1. to note the preparation and activity that had taken place across Argyll and Bute in support of the Joint Inspection of Children's Services and to thank all involved with this process; and

2. to request a detailed report on the inspection findings and associated improvement plan be brought to the June 2019 meeting of the Community Services Committee.

(Reference: Report by Executive Director – Customer Services dated 1 November 2018, submitted)

**8. EDUCATION PERFORMANCE DATA ANALYSIS 2018**

A report providing an overview of key performance data and outcomes for all pupils across each of the ten secondary schools for session 2017-2018 incorporating both SQA and Insight data from an authority perspective was considered.

**Decision**

The Committee agreed to:

1. note the outcome of the initial SQA examination results for pupils in academic year 2017-2018 complemented by 3-year trend data;

2. note the further detailed statistical analysis included from Insight in September 2018 that overviews authority data and allows further comparison with national data:

3. note that following the release of the examination results the Education Service undertook a programme of strategic performance review meetings between schools, Head Teachers, the two Heads of Service, and Education Staff in relation to the SQA examination outcomes as detailed at section 4 of this report;

4. note the strategic programme of performance review between schools and education development and improvement staff as detailed at section 7 of this report;

5. continue to endorse the work of the Education Service in supporting schools to secure continuous improvement in outcomes for Argyll and Bute Learners; and

6. note that a summary discussion note would be presented to the Policy Lead, as appropriate, ensuring that performance reporting reflects the requirements of the National Improvement Framework.

(Reference: Report by Executive Director – Customer Services dated 30 November 2018, submitted)

**9. ANNUAL PARTICIPATION MEASURE 2018**

A report providing the Committee with an update on the most recent Annual Participation Measure published in September 2018 was considered. The Annual Participation Measure reports on the economic and employment activity of the wider 16-19 year old cohort, including those at school. The measure is used to inform policy, planning and service delivery and to determine the impact of the Opportunities for All commitment.

**Decision**

The Committee agreed:

1. to note the publication of the 2018 Annual Participation Measure and that Annual Participation Measure has replaced School Leaver Destination Reports as a source of the national indicator, “increase the proportion of young people in learning, training or work”; and

2. that Opportunities for All and Developing Young Workforce programmes had contributed positively to Argyll and Bute 2018 participation measures being above both the Scottish average and comparator authorities.

(Reference: Report by Executive Director – Customer Services, submitted)

**10. ARGYLL AND BUTE COMMUNITY LEARNING AND DEVELOPMENT (CLD) STRATEGIC PARTNERSHIP - DRAFT CLD PLAN 2018-2021**

The Education (Scotland) Act 1980 requires local authorities and their partners to “secure adequate and efficient provision” of Community Learning and Development (CLD) services in their area. In 2013, the Requirements for Community Learning and Development (Scotland) Regulations were introduced. They placed a duty on local authorities, in partnership with Community Planning Partnerships and other CLD providers and communities, to secure the delivery of CLD through the implementation of a three year CLD Plan. In response to these regulations the Argyll and Bute CLD Strategic Partnership was established to develop and implement the first Argyll and Bute CLD Plan in September 2015. The same Partnership has now produced a refreshed Argyll and Bute CLD Plan for 2018-2021 and this was before the Committee for consideration.

**Decision**

The Committee:

1. noted the legal requirement to produce an Argyll and Bute CLD Plan for 2018-2021;

2. reviewed the contents of the draft Argyll and Bute CLD Plan 2018-2021, produced by the Argyll and Bute CLD Strategic Partnership; and

3. agreed the approach and contents of the draft Argyll and Bute CLD Plan 2018-2021 and agreed to a programme of annual progress updates for the lifespan of the Argyll and Bute CLD Plan 2018-2021.

(Reference: Report by Executive Director – Customer Services and Draft CLD Plan 2018-2021, submitted)

**11. PRESENTATION ON PATHS CURRICULUM**

The Principal Educational Psychologist provided information on PATHS (Promoting Alternative Thinking Strategies), which is an evidenced based curricular approach to enhancing Social Emotional Learning for 3 – 12 year olds, and responded to a number of questions from the Committee.

**Decision**

The Committee noted the contents of the presentation and the responses to questions asked.

**12. MENTAL HEALTH AND WELLBEING GUIDANCE - OUR CHILDREN, THEIR MENTAL HEALTH**

A guidance document, Our Children, Their Mental Health, had been developed to ensure that the Education Service in conjunction with partners, effectively addresses the mental health and wellbeing needs of all our children and young people. A report presenting this document was before the Committee for consideration.

**Decision**

The Committee agreed:

1. the content and purpose of Our Children, Their Mental Health; and

2. that the document is circulated and promoted with all staff within Education Services, and relevant partners, to improve outcomes for children and young people.

(Reference: Report by Executive Director – Customer Services dated 11 December 2018 and Our Children, Their Mental Health document dated November 2018, submitted)

**13. PRESENTATION ON INSPECTIONS**

The Head of Education: Learning and Teaching gave an overview of the process and the types of school inspection process and the types of inspections undertaken by Education Scotland. Details were also provided regarding the level of support provided to Head Teachers by Officers in their preparations for an inspection.

**Decision**

The Committee noted the contents of the presentation.

**14. EXTERNAL EDUCATION ESTABLISHMENT INSPECTION REPORT**

A report providing details of all external education establishment inspection reports received across Argyll and Bute Education Service during the period January to September 2018 was considered.

**Decision**

The Committee:

1. considered the contents of the report and appendices attached;

2. agreed that a quarterly report be presented on an ongoing basis to the Community Services Committee detailing all establishment inspections conducted by Education Scotland within that period; and

3. noted that Ward Members would receive copies of school inspection reports for schools within their area as published by Education Scotland.

(Reference: Report by Executive Director – Customer Services dated 7 November 2018, submitted)

**15. INSPECTION OF THE EDUCATION FUNCTIONS OF ARGYLL AND BUTE COUNCIL (INEA)**

A report advising the Committee of the outcome of the further inspection of the Education Functions of Argyll and Bute Council published on 26 November 2018 and confirming progress made by the Authority in addressing the main points for action contained within the initial inspection report of 21 March 2017 was considered.

**Decision**

The Committee:

1. noted the further inspection of the Education Functions of Argyll and Bute Council which took place on 2 October 2018;

2. considered the inspection report published by Education Scotland on 26 November 2018;

3. welcomed the progress made by the Education Service and the wider Council in responding to the main points for action; and

4. noted that improvements made have resulted in HM Inspectors making no further visits to Argyll and Bute in connection with the original inspection of September 2016.

(Reference: Report by Executive Director – Customer Services, submitted)

**16. DRAFT EDUCATION SERVICE PLAN 2019-2022 FOR 2019/20 BUDGET ALLOCATION**

A report presenting the Draft Education Service Plan 2019-2022 for the 2019/20 budget allocation was considered.

**Decision**

The Committee:

1. approved the Draft Education Service Plan 2019-22 for the 2019/20 budget allocation; and

2. noted that the budget allocation would be proposed at the Policy and Resources Committee on 14 February 2019 for final approval at Council on 21 February 2019.

(Reference: Report by Executive Director – Customer Services and Draft Education Service Plan 2019-22 for the 2019/20, submitted)

**17. DRAFT HOUSING SERVICE PLAN 2019-2022 FOR 2019/20 BUDGET ALLOCATION**

A report presenting the Draft Housing Service Plan 2019-2022 for the 2019/20 budget allocation was considered.

**Decision**

The Committee:

1. approved the Draft Housing Service Plan 2019-22 for the 2019/20 budget allocation; and

2. noted that the budget allocation would be proposed at the Policy and Resources Committee on 14 February 2019 for final approval at Council on 21 February 2019.

(Reference: Report by Executive Director – Development and Infrastructure Services and Draft Housing Service Plan 2019-22 for the 2019/20, submitted)

Councillor Alan Reid left the meeting at this point.

* **18. REVIEW OF STRATEGIC HOUSING FUND**

A report reviewing the use of the Strategic Housing Fund in line with Council and Scottish Government priorities was considered.

**Decision**

The Committee recommended that the Council agree to:

1. continue to use the Strategic Housing Fund to assist with the delivery of affordable housing in Argyll and Bute at £12,000 per unit. This would apply to affordable housing units delivered by March 2021;

2. use the Strategic Housing Fund to honour existing commitments within the fund eg existing awards to Registered Social Landlords;

3. extend the £12,000 per unit to community organisations who satisfy requisite funding criteria and secure Rural Housing Fund and/or Islands Housing Fund Grant from the Scottish Government to deliver affordable housing;

4. an Empty/Abandoned Buildings enabling budget of £50,000 per annum to tackle the most problematic empty buildings; and

5. carry out a further review of the Strategic Housing Fund which will take into account the Scottish Government vision of Housing Beyond 2021.

(Reference: Report by Executive Director – Development and Infrastructure Services dated November 2018, submitted)

**19. HOUSING BEYOND 2021: SCOTTISH GOVERNMENT CONSULTATION**

A report summarising the Scottish Government's discussion paper: Housing Beyond 2021, and the arrangements proposed for preparing a joint response by the Argyll and Bute Strategic Housing Forum and the Council was considered.

**Decision**

The Committee:

1. considered the contents of the report which summarised the proposed Council response to the Scottish Government Housing Beyond 2021 consultation; and

2. approved the Housing Services' outline proposed as the Council response to the Scottish Government.

(Reference: Report by Executive Director – Development and Infrastructure Services, submitted)

**20. FORMER WITCHBURN ROAD OFFICES SITE - PROGRESS ON DEMOLITION AND SITE MARKETING**

A report advising the Committee on progress with the arrangements for the demolition of the former Witchburn Road Office buildings and the marketing that had taken place to date was considered.

**Decision**

The Committee:

1. noted the current progress with the arrangements for the demolition and that to comply with the requirements of the bat license that the contract for the demolition works needs to be awarded by 21 December 2018 to allow demolition works to be completed by 31 March 2019;

2. noted that an "All Enquiries" sales board have been displayed on the former Contact Centre building that fronts Witchburn Road and more targeted publicity was proposed to generate interest in the site;

3. agreed that a layout for housing plots and associated infrastructure would be tendered by Property Development and Estates using capital remaining from the Strategic Housing Fund allocation if possible; and

4. agreed that a further update be brought back to the June 2019 Committee.

(Reference: Report by Executive Director – Customer Services dated 5 November 2018, submitted)

**21. EDUCATION SERVICE PERFORMANCE REPORT FQ2 2018/2019**

A report presenting the Education Service Performance Scorecard for FQ2 2018-19 (July – September) was considered.

**Decision**

The Committee reviewed and noted the Education Performance for FQ2.

(Reference: Report by Executive Director – Customer Services dated 5 November 2018, submitted)

**22. HOUSING SERVICES PERFORMANCE REPORT FQ2 2018-19**

A report presenting the Housing Services performance report with associated scorecard for performance in FQ2 2018-19 (July – September) was considered.

**Decision**

The Committee reviewed and noted the scorecard as presented.

(Reference: Report by Executive Director – Development and Infrastructure Services, submitted)

The Chair referred to correspondence received from HM Inspectorate of Constabulary Scotland (HMICS) inviting the Committee to comment on their new Scrutiny Plan for 2019-20 which will examine the effectiveness and efficiency of both Police Scotland and the Scottish Police Authority. She advised that she would be seeking a view on this from the Committee following consideration of the report by Police Scotland.

**23. ARGYLL AND BUTE LOCAL POLICING PLAN 2017-2020 - QUARTERLY REPORT Q2 2018/19**

Superintendent Brian Gibson introduced Chief Inspector Douglas Wilson to the Committee and then presented a report by Police Scotland which provided the FQ2 – 2018/19 update in relation to the Argyll and Bute Local Policing Plan for 2017-2020.

**Decision**

The Committee:-

1. reviewed and noted the contents of the report; and

2. made no comment on the HMICS scrutiny plan.

(Reference: Report by Local Police Commander for Argyll and West Dunbartonshire Division, Police Scotland, submitted)

**24. SCOTTISH FIRE AND RESCUE SERVICE - ARGYLL AND BUTE PERFORMANCE REPORT FQ2 - JULY - SEPTEMBER 2018**

A report highlighting the Scottish Fire and Rescue Service (SFRS) FQ2 review of local performance within Argyll and Bute for 2018-19 was before the Committee for consideration.

The Local Senior Officer, Paul Devlin, provided an update on recent activities and presented the contents of the report and responded to a number of questions from the Committee.

**Decision**

The Committee reviewed and noted the contents of the report and responses to questions asked.

(Reference: Q2 2018/19 Report by Local Senior Officer, Scottish Fire and Rescue Service, submitted)

**25. ARGYLL AND BUTE HSCP - NATIONAL HEALTH AND WELLBEING OUTCOMES PERFORMANCE REPORTING FRAMEWORK AND EXCEPTION REPORTING ARRANGEMENTS - FQ1 2018/19**

A report highlighting the National Health and Wellbeing Outcomes Performance Reporting Framework for Exception Reporting Arrangements was before the Committee for consideration.

**Decision**

The Committee:-

1. considered and noted the contents of the Health and Social Care Partnership performance report in line with the current national reporting requirements; and

2. noted the on-going review of the performance indicators.

(Reference: Report by Head of Strategic Planning & Performance, HSCP, submitted)

**26. NORTHERN ALLIANCE: REGIONAL IMPROVEMENT (PHASE 2) PLAN PROGRESS UPDATE**

A report advising of the further development of the Northern Alliance Regional Improvement Plan (Phase 2) was before the Committee for information.

**Decision**

The Committee:

1. noted the progress of the Northern Alliance Regional Improvement Plan (Phase 2); and

2. noted a grant of up to £1,086,067 had been allocated to the Northern Alliance to enhance the Regional Improvement Collaborative's activities and capacity building.

(Reference: Report by Executive Director – Customer Services, submitted)

**27. COMMUNITY SERVICES COMMITTEE WORK PLAN 2018/19**

The Community Services Committee work plan 2018/19 was before the Committee for information.

**Decision**

The Committee noted the contents of the work plan.

(Reference: Community Services Committee Work Plan 2018/19, submitted)

* **28. NOTICE OF MOTION UNDER STANDING ORDER 13 - SCOTLAND'S CHARTER FOR A TOBACCO-FREE GENERATION**

The following Notice of Motion was before the Committee for consideration:-

This Committee:

a) Welcomes the signing of Scotland's Charter for a Tobacco-Free Generation by the Argyll and Bute Integration Joint Board.

b) Noted that further details of the Charter can be found at https://www.ashscotland.org.uk/what-you-can-do/scotlands-charter-for-a-tobacco-free-generation/

c) Agrees that Argyll and Bute Council sign the Charter.

d) Endorses the principles that:

1. Every baby should be born free from the harmful effects of tobacco;
2. Children have a particular need for a smoke-free environment;
3. All children should play, learn and socialise in places that are free from tobacco;
4. Every child has the right to effective education that equips them to make informed positive choices on tobacco and health;
5. All young people should be protected from commercial interests which profit from recruiting new smokers; and
6. Any young person who smokes should be offered accessible support to help them to become tobacco-free.

e) In support of the Charter agrees to:

1. Acknowledge the harmful effect smoking has on the health of our population.
2. Be personal advocates for a tobacco-free generation.
3. Encourage our educational establishments to further discourage young people from becoming new smokers and ensure that accessible support is available for smokers becoming tobacco-free.

Moved by Councillor Kieron Green, seconded by Councillor Yvonne McNeilly.

**Decision**

The Committee unanimously agreed the terms of the Motion and that this be forwarded to the Council for ratification.

The Committee resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public for the following item of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraph 9 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

* **29. RAPID REHOUSING TRANSITION PLAN**

A report summarising the Rapid Rehousing Transition Plan 2019-2024 for Argyll and Bute was considered.

**Decision**

The Committee recommended that the Council agree the Rapid Rehousing Transition Plan.

(Reference: Report by Executive Director – Development and Infrastructure Services, submitted)

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**MINUTES of MEETING of POLICY AND RESOURCES COMMITTEE held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on THURSDAY, 13 DECEMBER 2018**

**Present:** Councillor Aileen Morton (Chair)

| | |
|---|---|
| Councillor Robin Currie | Councillor Elaine Robertson |
| Councillor Kieron Green | Councillor Sandy Taylor |
| Councillor Roderick McCuish | Councillor Richard Trail |
| Councillor Gary Mulvaney | Councillor Lorna Douglas |
| Councillor Alan Reid | Councillor Audrey Forrest |

**Also Present:**

| | |
|---|---|
| Councillor Jim Anderson | Councillor Jim Findlay |
| Councillor Jim Lynch | Councillor George Freeman |

**Attending:** Cleland Sneddon, Chief Executive
Douglas Hendry, Executive Director of Customer Services
Pippa Milne, Executive Director of Development and Infrastructure Services
Kirsty Flanagan, Head of Strategic Finance
Fergus Murray, Head of Economic Development and Strategic Transportation
Patricia O'Neill, Central Governance Manager

The Chair intimated that a request had been received from Councillor Jim Finlay, who was not a member of the Committee, to speak to item 12 of the agenda (Strategic Events and Festivals Grant 2019/10). She advised that the request was not compliant with Standing Order 22.1, however he would be entitled to take part in the discussions generally. She advised that as she would be declaring an interest in this item, Councillor Mulvaney would be taking the Chair, and that he had advised that he would be willing to let Councillor Finlay speak on the item.

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Rory Colville, Yvonne McNeilly, Ellen Morton, Douglas Philand and Len Scoullar.

**2. DECLARATIONS OF INTEREST**

Councillor Aileen Morton declared a non-financial interest in item 12 of the agenda (Strategic Events and Festivals Grant 2019/20) due to her being a member of the Helensburgh Winter Festival Committee.

Councillor Kieron Green declared a non-financial interest in item 12 of the agenda (Strategic Events and Festivals Grant 2019/20) due to him being a member of the Royal Highland Games Committee.

Councillor Lorna Douglas declared a non-financial interest in item 12 of the agenda (Strategic Events and Festivals Grant 2019/20) due to her being a member of the Helensburgh Winter Festival Committee.

Councillor Gary Mulvaney advised in relation to item 12 (Strategic Events and Festivals Grant 2019/20), that he was previously a member and Chair of the Helensburgh Winter Festival Committee. He had ceased to be a member and Chair of the Committee 2 years previously and therefore would not be declaring an interest and would be taking part in the discussion of the item.

**3. MINUTES**

The Minutes of the meeting of the Policy and Resources Committee held on 18 October 2018 were approved as a correct record.

**4. FINANCIAL MONITORING PACK - OCTOBER 2018**

A report which provided a summary of the financial monitoring reports as at the end of October 2018 were given consideration by the Committee. There were six detailed reports summarised in the executive summary including; the Revenue Budget Monitoring Report as at 31 October 2018, Monitoring of Service Package Policy Options as at 31 October 2018, Monitoring of Financial Risks as at 31 October 2018, Capital Plan Monitoring Report as at 31 October 2018, Treasury Monitoring Report as at 31 October 2018 and Reserves and Balances as at 31 October 2018.

**Decision**

The Policy and Resources Committee –

1. Noted the Revenue Budget Monitoring Report as at 31 October 2018.

2. Noted the comments in respect of the Health and Social Care Partnership Position.

3. Noted the progress of the Service Package Policy Saving Options as at 31 October 2018.

4. Noted the current assessment of the Council's Financial Risks.

5. Noted the Capital Plan Monitoring Report as at 31 October 2018 and approved the proposed changes to the Capital Plan as detailed at Appendix 7 to the submitted report.

6. Noted the Treasury Monitoring Report as at 31 October 2018.

7. Noted the Reserves and Balances report as at 31 October 2018.

(Reference: Report by Head of Strategic Finance dated 30 November 2018, submitted)

**5. BUDGET OUTLOOK 2019-20 TO 2021-22**

Consideration was given to a report which updated the Committee on the budget outlook 2019-20 to 2021-22 that had been last reported to the Committee on 18 October 2018. The report summarised the position based on previous assumptions that hadn't changed and provided information on any assumptions that had changed.

The Head of Strategic Finance provided the Committee with a verbal update on the budget outlook following the budget announcement from the Scottish Government the previous day and highlighted that the funding allocation for local government could substantially increase Argyll and Bute Council's previous estimated funding gap for 2019/20 to around £9million.

**Decision**

The Policy and Resources Committee noted the current estimated budget outlook position for the period 2019-20 to 2021-22; including the verbal update given by the Head of Strategic Finance.

(Reference: Report by Head of Strategic Finance dated 30 November 2018, submitted)

**6. BUDGET 2019-20 - SAVINGS OPTIONS**

The Committee gave consideration to a report which provided them with information on savings options identified for 2019-20 and beyond via the work of the Transformation Board during 2018-19.

**Motion**

Members are asked to:

a) recommend that Council, as part of the 2019-20 budget process, endorse the management/operational savings identified.
b) note the policy options that have been identified with further information on the options to be brought forward to Council as part of the 2019-20 budget papers.
c) endorse that the Transformation Board continue to pursue the longer term options as noted in paragraph 3.8.

Moved Councillor Richard Trail, seconded Councillor Audrey Forrest.

**Amendment**

Members are asked to:

a) recommend that Council, as part of the 2019-20 budget process, endorse the management/operational savings identified.
b) note the policy options that have been identified with further information on the options to be brought forward to Council as part of the 2019-20 budget papers.
c) note that many of these savings proposals are undesirable but that the Scottish Government Budget announcement on Wednesday 12 December means that even more savings will need to be identified as Local Authority budgets have yet again been cut.
d) endorse that the Transformation Board continue to pursue the longer term options as noted in paragraph 3.8.

Moved Councillor Aileen Morton, seconded Councillor Gary Mulvaney.

**Decision**

Following a show of hands vote the amendment was carried by 7 votes to 4 and the Committee resolved accordingly.

(Reference: Report by Head of Strategic Finance dated 30 November 2018, submitted)

**7. DRAFT SERVICE PLANS 2019-22 FOR 2019/20 BUDGET ALLOCATION**

The Committee considered a report which presented them with the Draft Service Plans 2019-22 for the 2019/20 budget allocation.

**Decision**

The Policy and Resources Committee –

1. Approved the Draft Service Plans 2019-22 for the 2019/20 budget allocation which would be proposed at the Policy and Resources Committee meeting on 14 February 2019 for final approval by Council on 21 February 2018.

2. Noted that further work would be carried out to standardise service plans across all services on an ongoing basis.

(Reference: Report by Executive Director – Customer Services dated 13 November 2018, submitted)

**8. CUSTOMER SERVICES AND STRATEGIC FINANCE PERFORMANCE REPORTS - FQ2**

The Committee gave consideration to a report that presented them with the Customer Services and Strategic Finance departmental performance reports and associated scorecards for financial quarter 2 2018/19.

**Decision**

The Policy and Resources Committee noted the departmental performance reports and associated scorecards for Customer Services and Strategic Finance for financial quarter 2 2018/19.

(Reference: Report by Executive Director – Customer Services and Head of Strategic Finance dated December 2018, submitted)

**9. REQUESTS FOR ADDITIONAL FINANCIAL SUPPORT FOR COMMUNITY COUNCILS**

The Committee gave consideration to a report which invited them to consider individual requests from community councils for additional financial support to support community councillors on island and more rural community councils who often require to personally meets the costs of travel associated with their voluntary roles.

**Decision**

The Policy and Resources Committee –

1. Agreed that officers look at the current terms of the discretionary grant in effort to address the concerns raised.

2. Noted that any financial increase to some community councils would impact negatively on the discretionary funds paid out to other community councils.

(Reference: Report by Executive Director – Customer Services dated 27 November 2018, submitted)

Councillor McCuish left the meeting at this point.

**10. COMMUNITY EMPOWERMENT (SCOTLAND) ACT 2015 - IMPLEMENTATION UPDATE**

The Committee gave consideration to a report that provided an overview of the progress made against each element of the Community Empowerment (Scotland) Act 2015, which was now considered as business as usual and was embedded within the day to day operations of the Council and its Partners.

**Decision**

The Policy and Resources Committee agreed that –

1. The Community Empowerment Working Group had fulfilled its role and could now be disbanded.

2. The required annual reports in respect of Asset Transfer Requests and Participation Requests will continue to be tabled at the Policy and Resources Committee.

3. Such other reports as may be required will come forward to the appropriate Committee as and when required in the future.

(Reference: Report by Executive Director – Customer Services dated 16 November 2018, submitted)

* **11. PROPOSED REVISION TO CHARGES FOR PRE-APPLICATION PLANNING ADVICE**

Consideration was given to a report that sought approval for the implementation of a revision to non-statutory charges which were currently levied for the provision of pre-application planning advice.

**Decision**

The Policy and Resources Committee agreed to recommend to Council that the Council's scale of non-statutory charges be revised to include new charges for pre-application initiation and follow up meetings as detailed in paragraph 4.7 of the submitted report.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 13 November 2018, submitted)

Councillor McCuish re-joined the meeting.

Having declared an interest in the following item of business Councillors Lorna Douglas, Kieron Green and Aileen Morton left the meeting and took no part in the consideration of the item.

Councillor Gary Mulvaney, in his role as Vice-Chair, took the Chair in the absence of Councillor Aileen Morton.

**12. STRATEGIC EVENTS AND FESTIVALS GRANT 2019/20**

The Committee gave consideration to a report that provided details in respect of the bids submitted for grant funding for strategic events and festivals in 2019/20, the assessment process and the decision in respect of the bids being put forward to receive grant funding.

**Decision**

The Policy and Resources Committee –

1. Noted the information provided within the report including the assessments process undertaken.

2. Endorsed the recommendation to award grant funding to the strategic events and festivals taking place in 2019/20 as detailed in tables 2 and 3 of the submitted report.

3. Agreed that officers conduct a lessons learnt exercise, the results of which to be brought back to Committee for review prior to any future assessment process being undertaken.

(Reference: Report by Executive Director – Development and Infrastructure Services dated November 2018, submitted)

Councillors Lorna Douglas, Kieron Green and Aileen Morton re-joined the meeting.

Councillor Aileen Morton resumed her role as Chair.

**13. REVIEW OF ADVICE SERVICES: PROGRESS REPORT**

Consideration was given to a report which provided the Committee with an update on the position with the implementation of the new arrangement for advice services relating to debt, welfare rights and homelessness advice.

**Decision**

The Policy and Resources Committee –

1. Noted the progress to date.

2. Agreed with the proposal to extend the existing contracts with the current providers on a monthly rolling basis, subject to their agreement, as a contingency for the mobilisation period.

3. Requested that a further report be brought to a future Policy and Resources Committee.

(Reference: Report by Executive Director – Development and Infrastructure dated December 2018, submitted)

* **14. CONSERVATION AREA REGENERATION SCHEME (CARS) - FUNDING OPPORTUNITY**

The Committee gave consideration to a report which requested them to give consideration to making financial commitments against two proposed heritage-led regeneration projects for Lochgilphead and Helensburgh.

**Decision**

The Policy and Resources Committee agreed to refer the consideration of a financial commitment to the Council as part of the budget process in respect of –

1. Making a financial commitment of £386,220 towards a Lochgilphead Conservation Area Regeneration Scheme.

2. Making a financial commitment of £500,000 towards a Helensburgh Conservation Area Regeneration Scheme.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 20 November 2018, submitted)

**15. LORN ARC - UPDATE REPORT DECEMBER 2018**

The Committee gave consideration to a report which provided them with an update on progress in relation to the Lorn Arc Tax Incremental Financing, the latest budget position as at the end of October 2018 and proposals to restrict future activities given the current status of ongoing projects and the lack of a positive business case to advance projects through a growth accelerator model.

**Decision**

The Policy and Resources Committee –

1. Noted the updates on the Lorn Arc Programme provided in the paper.

2. Agreed that in light of the updates provided on the individual projects (paragraphs 4.5 through to 4.16) that further consideration is given to the future of the Lorn Arc Programme with a report back to a future meeting of this Committee.

3. Agreed that future reporting in the Lorn Arc will be limited to projects with potential for Tax Incremental Financing and the financial monitoring of the overall programme.

4. Noted that the halfway house Roundabout remains as a potential project and that it will only be able to proceed if –
   - A robust business case shows that the additional NDR generated from the associated development would fund the necessary council borrowing.
   - The commercial developers of those NDR generating development sites provide appropriate legal agreements that contain sufficient certainty that those developments will go ahead within an appropriate timeframe.

(Reference: Report by Executive Director – Development and Infrastructure Services dated November 2018, submitted)

**16. POLICY AND RESOURCES COMMITTEE WORKPLAN - DECEMBER 2018**

The Policy and Resources Committee Work Plan as at December 2018 was before the Committee for noting.

**Decision**

The Policy and Resources Committee noted the Work Plan as at December 2018.

(Reference: Policy and Resources Committee Work Plan as at December 2018, submitted)

The Chair advised that in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, appendix 2 relating to the following item of business would require her to exclude the press and public should any Member wish to discuss the content of that appendix on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraph 6 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

**17. REQUEST FOR AMENDMENT TO CASH FLOW LOAN BY MULL & IONA COMMUNITY TRUST**

Consideration was given to a report which set out a request received from Mull and Iona Community Trust for a cash flow support loan in relation to a storage and business unit facility at Ardmore on the outskirts of Tobermory, Mull. The request related to an amendment to a previous cash flow support loan sought by the Mull and Iona Community Trust for the same project but which covered a different time period.

**Decision**

The Policy and Resources Committee approved the request for a cash flow loan of £100,000 over the amended time period and that it be processed through the existing delegated controls.

(Reference: Report by Executive Director – Development and Infrastructure Services dated December 2018, submitted)

The Council resolved in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public for the following 2 items of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraphs 8 and 9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

**18. CHORD - DUNOON - QUEEN'S HALL - PROJECT UPDATE**

Consideration was given to a reporting providing the Committee with an update on the commercial aspects of the Queen’s Hall refurbishment and public realm improvements project.

**Decision**

The Policy and Resources Committee –

1. Noted the update provided in the submitted report.

2. Agreed that the project would be funded and consideration would be given to this as part of the 2019-20 budget setting process.

(Reference: Report by Executive Director – Customer Services dated 29 November 2018, submitted)

**19. PROVISION OF AIR SERVICES BETWEEN OBAN AND THE ISLANDS OF COLL, COLONSAY AND TIREE**

Consideration was given to a report that briefed the Committee on the procurement that has been undertaken for the provision of air service between Oban and the Islands of Coll, Colonsay and Tiree due to the current contract expiring on 15 May 2019.

**Decision**

The Policy and Resources Committee –

1. Noted the outcome of the tender procurement exercise.

2. Endorsed the approach set out in paragraph 4.6 of the submitted report.

3. Requested that the Council consider the unbudgeted additional cost of continuing to operate the current contract until August 2019 as part of the budget in February 2019.

(Reference: Report by Executive Director – Development and Infrastructure Services dated 4 December 2018, submitted)

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**ARGYLL AND BUTE COUNCIL** **COUNCIL**

**STRATEGIC FINANCE** **21 FEBRUARY 2019**

**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY**

## 1. EXECUTIVE SUMMARY

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Strategy to be approved by Council for the forthcoming financial year. This report seeks Members approval of the proposed Treasury Management Strategy Statement and Annual Investment Strategy. The report also sets out the policy for the repayment of loans fund advances for 2019-20.

1.2 The draft Treasury Management Strategy Statement and Annual Investment Strategy will be presented to the:

- Policy and Resources Committee on 14 February 2019
- Council on 21 February 2019
- Audit and Scrutiny Committee on 19 March 2019
- If required, Council on 18 April 2019, following recommendations from the Audit and Scrutiny Committee that need approval from Council.

1.3 The Council uses Link Asset Services (previously known as Capita) as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.4 Section 2 of the attached document outlines the Council's Capital Prudential and Treasury Indicators and Members are asked to approve the indicators.

1.5 Section 2.5 notes that in 2016 new regulations were enacted by the Scottish Parliament, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, under which the Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The policy on repayment of loans fund advances in respect of capital expenditure by the Council is to ensure that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

1.6 A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve Option 1 and Option 4 from the options for the repayment of loans fund advances. Detail and implications on each option are outlined within the table below.

| Option | Description | Implications |
|---|---|---|
| Option 1 – Statutory Method | Loans fund advances will be repaid in equal instalments of principal by the annuity method. The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile | This is the current method for repaying advances and is the most predictable for setting budgets. |
| Option 2 – Depreciation Method | annual repayment of loans fund advances will follow standard depreciation accounting procedures | The repayments are matched to the depreciation charges which means that if the asset was impaired the Council would need to repay an equivalent amount of the outstanding debt, rather than continuing with the scheduled repayments. |
| Option 3 – Asset life method | Loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method | Similar to the depreciation method if the asset life was shortened then the payments would need to be accelerated |
| Option 4 – Funding/Income profile method | loans fund advances will be repaid by reference to an associated income stream | Under this methodology the repayment of debt is matched to the income stream from the asset which is suited to spend to save scheme and assets which generate income which is being used to repay the debt outstanding. |

1.7 Section 3 of the document outlines the current actual external debt against the capital financing requirement highlighting any over or under borrowing. There is information on the interest rates projections and the borrowing strategy.

1.8 Section 4 of the document outlines the annual investment strategy. The Council's investment priorities will be security first, liquidity second and then return. It explains the creditworthiness policy and the use of Link Asset Services in this respect as well as the Country and Sector limits.

1.9 There are a number of appendices in Section 5. Some of this information has been provided by our Treasury advisors, Link Asset Services.

## 2. RECOMMENDATIONS

2.1 It is recommended that the Council:

a) Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy and the indicators contained within.

b) Approve the use of Option 1 (statutory method) for the repayment of loan fund advances in respect of existing capital expenditure and new advances up to 31 March 2021 at an interest rate of 4.095%, with the exception of spend to save schemes where Option 4 (funding/income profile method) will be used.

c) Approve the ability to continue to use countries with a sovereign rating of AA- and above, as recommended by Link Asset Services.

## 3. IMPLICATIONS

3.1 Policy – Sets the policy for borrowing and investment decisions.

3.2 Financial - There are no direct financial implications arising from the recommendations in this report. An effective Treasury Management Strategy does however forms a significant part of the Council's financial arrangements and its financial well-being.

3.3 Legal - None.

3.4 HR - None.

3.5 Fairer Scotland Duty - None.

3.6 Risk - This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

3.7 Customer Service - None.

**Kirsty Flanagan**
**Head of Strategic Finance**
**6 February 2019**

**Policy Lead for Strategic Finance and Capital Regeneration Projects: Councillor Gary Mulvaney**

**APPENDICES**
Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2019-20

# Treasury Management Strategy Statement

## and Annual Investment Strategy 2019-2020

# INDEX

# 1 INTRODUCTION

### 1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure),and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

> "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity if that is going to be undertaken. The capital strategy is currently under development and will be reported separately.

### 1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

An annual Treasury Management Strategy Statement (this report) – this is the first and most important report which is submitted to full Council before the start of the financial year. It covers:

- The capital plans (including prudential indicators);

- A policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- A permitted investment strategy (the parameters on how investments are be to managed).

A mid-year Treasury Management Review Report – this will update Members with the progress of the capital position, amending prudential indicators as necesssary and whether any policies require revision. Monitoring reports are submitted to each Policy and Resources Committee.

An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Capital Strategy**

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

**1.3 Treasury Management Strategy for 2019/20**

The strategy for 2019/20 covers two main areas:

**Capital issues**

- the capital expenditure plans and the associated prudential indicators.
- The loans fund repayment policy.

**Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

### 1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (Audit and Scutiny Committee).

The training needs of treasury management officers are periodically reviewed.

### 1.5 Treasury management advisors

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

# 2 CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

### 2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the 2019/20 budget setting.

The table below summarises the capital expenditure plans as outlined within the proposed capital plan 2019-22.

| Capital Expenditure<br>£'000 | 2017/18<br>Actual | 2018/19<br>Estimate | 2019/20<br>Estimate | 2020/21<br>Estimate | 2021/22<br>Estimate |
|---|---|---|---|---|---|
| Education | 67,858 | 11,777 | 8,097 | 3,360 | 2,920 |
| Argyll and Bute HSCP | 659 | 841 | 58 | 561 | 561 |
| Customer Services | 1,344 | 5,952 | 2,252 | 1,573 | 1,572 |
| Development and Infrastructure Services | 22,210 | 28,584 | 25,013 | 31,284 | 17,799 |
| Live Argyll | 240 | 943 | 616 | 561 | 561 |
| **Total** | **92,311** | **48,097** | **36,036** | **37,339** | **23,413** |

The table below summarises the above capital expenditure plans and how capital or revenue resources are financing them. Any shortfall of resources results in a funding borrowing need. (The financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.)

| Capital Expenditure<br>£'000 | 2017/18<br>Actual | 2018/19<br>Estimate | 2019/20<br>Estimate | 2020/21<br>Estimate | 2021/22<br>Estimate |
|---|---|---|---|---|---|
| **Total Capital Expenditure** | 92,311 | 48,097 | 36,036 | 37,339 | 23,413 |
| **Financed by:** | | | | | |
| Capital Receipts | 5,580 | 3,548 | 1,203 | 1,203 | 2,202 |
| Capital Grants | 17,243 | 12,023 | 14,192 | 11,229 | 11,229 |
| Capital Reserves | 0 | 0 | 0 | 0 | 0 |
| Revenue | 4,135 | 22,471 | 10,744 | 5,000 | 0 |
| **Net Financing need for the year** | **65,353** | **10,055** | **9,897** | **19,907** | **9,982** |

### 2.2 The Council's Overall Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made, called the Loan Fund Principal Repayment, which reflect the useful life of capital assets financed by borrowing. This charge reduces the CFR each year. From 1 April 2016, authorities may choose whether to use scheduled debt amortisation, (loans pool charges), or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £128.6m of such schemes within the CFR.

The CFR projections are noted in the following table.

| £'000 | 2017/18 Actual | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| Opening CFR | 253,483 | 306,433 | 304,389 | 301,781 | 309,082 |
| Closing CFR | 306,433 | 304,389 | 301,781 | 309,082 | 306,056 |
| **Movement in CFR** | **52,950** | **(2,044)** | **(2,608)** | **7,301** | **(3,026)** |
| | | | | | |
| **Movement in CFR represented by** | | | | | |
| Net financing need for the year (above) | 65,353 | 10,055 | 9,897 | 19,907 | 9,982 |
| Less scheduled debt Amortisation | 12,403 | 12,099 | 12,505 | 12,606 | 13,008 |
| **Movement in CFR** | **52,950** | **(2,044)** | **(2,608)** | **7,301** | **(3,026)** |

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

### 2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

| Year End Resources<br><br>£'000 | 2017/18<br><br>Actual | 2018/19<br><br>Estimate | 2019/20<br><br>Estimate | 2020/21<br><br>Estimate | 2021/22<br><br>Estimate |
|---|---|---|---|---|---|
| **Expected Investments** | **64,915** | **60,000** | **50,000** | **40,000** | **30,000** |

### 2.4 Limits to Borrowing Indicators

**The operational boundary:** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| Operational Boundary<br><br>£'m | 2016/17<br><br>Actual | 2017/18<br><br>Estimate | 2018/19<br><br>Estimate | 2019/20<br><br>Estimate | 2020/21<br><br>Estimate |
|---|---|---|---|---|---|
| Debt | 179 | 203 | 194 | 173 | 172 |
| Other long term liabilities | 80 | 130 | 128 | 126 | 124 |
| **Total** | **259** | **333** | **322** | **299** | **296** |

| Operational Boundary<br><br>£'m | 2017/18<br><br>Actual | 2018/19<br><br>Actual | 2019/20<br><br>Estimate | 2020/21<br><br>Estimate | 2021/22<br><br>Estimate |
|---|---|---|---|---|---|
| Debt | 203 | 194 | 200 | 210 | 214 |
| Other long term liabilities | 130 | 128 | 124 | 119 | 114 |
| **Total** | **333** | **322** | **324** | **329** | **328** |

**The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

a) This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

b) The Council is asked to approve the following authorised limit:

| Authorised Limit<br><br>£'m | 2017/18<br><br>Actual | 2018/19<br><br>Actual | 2019/20<br><br>Estimate | 2020/21<br><br>Estimate | 2021/22<br><br>Estimate |
|---|---|---|---|---|---|
| Debt | 208 | 199 | 205 | 215 | 219 |
| Other long term liabilities | 133 | 131 | 127 | 122 | 117 |

| | | | | | |
|---|---|---|---|---|---|
| **Total** | **341** | **330** | **332** | **337** | **336** |

### 2.5 Statutory repayment of loans fund advances

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:

For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method**, with all loans fund advances being repaid in equal instalments of principal/ by the annuity method.

For loans fund advances made after 1 April 2016, the policy for the repayment of loans advances will be either the*:*

1. **Statutory method** – loans fund advances will be repaid in equal instalments of principal by the annuity method (up to 31 March 2021).

   The Council is permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile; or

2. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (after 31 March 2021).

The annuity rate applied to the loans fund repayments was based on historic interest rates and is currently 4.095%. However, under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application. The result of this review suggests that a revised annuity rate of 4.095% is still applicable.

# 3 TREASURY MANAGEMENT STRATEGY

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2018 and for the position as at 31 January 2019 are shown below for both borrowing and investments.

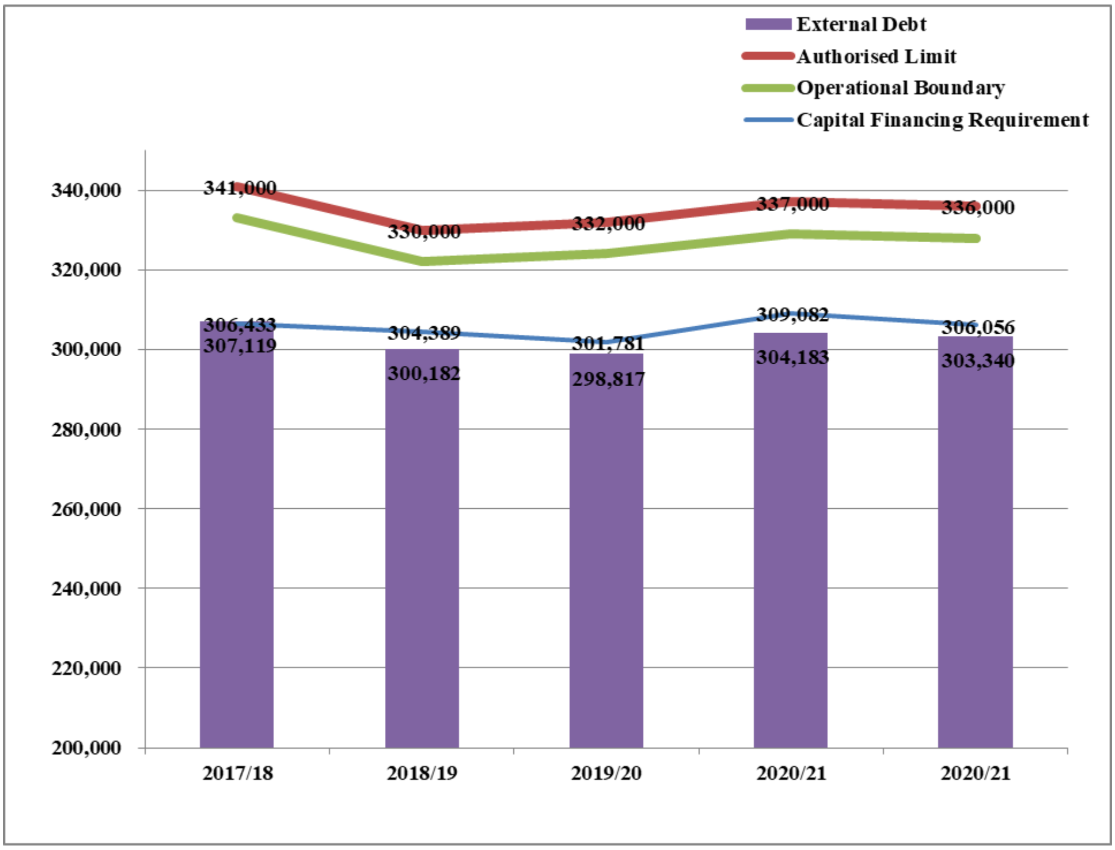
| TREASURY PORTFOLIO | | | | |
|---|---|---|---|---|
| | Actual | Actual | Current | Current |
| | **31.3.18** | **31.3.18** | **31.01.19** | **31.01.19** |
| **Treasury investments** | £000 | % | £000 | % |
| Banks | 38,414 | 59% | 58,193 | 67% |
| Building Societies - unrated | 0 | 0% | 0 | 0% |
| Building Societies - rated | 0 | 0% | 5,000 | 6% |
| Local Authorities | 5,000 | 8% | 0 | 0% |
| DMADF (H.M.Treasury) | 0 | 0% | 0 | 0% |
| Money Market Funds | 14,000 | 22% | 14,000 | 16% |
| Certificates of Deposit | 7,501 | 12% | 10,000 | 11% |
| Property Investments | 0 | 0% | 0 | 0% |
| **Total managed in house** | **64,915** | **100%** | **87,193** | **100%** |
| Bond Funds | 0 | 0% | 0 | 0% |
| Property Funds | 0 | 0% | 0 | 0% |
| **Total Managed Externally** | **0** | **0%** | **0** | **0%** |
| **Total Treasury Investments** | **64,915** | **100%** | **87,193** | **100%** |
| | | | | |
| Treasury external borrowing | | | | |
| Local Authorities | 0 | 0% | 0 | 0% |
| PWLB | 127,286 | 71% | 124,843 | 71% |
| LOBOs | 39,255 | 22% | 39,255 | 22% |
| Market | 11,000 | 6% | 11,000 | 6% |
| Special | 337 | 0% | 296 | 0% |
| Temporary Borrowing | 577 | 0% | 579 | 0% |
| Local Bonds | 33 | 0% | 33 | 0% |
| **Total External Borrowing** | **178,488** | **100%** | **176,006** | **100%** |
| | | | | |
| **Net Treasury Investments / (Borrowing)** | **(113,573)** | | **(88,813)** | |

A more detailed analysis of the above table showing actual investments placed with individual counterparties can be found in Appendix 2.

The Council's forward projections for borrowing, are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| £'000 | 2017/18 Actual | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|
| **External Debt** | | | | | |
| Debt as 1st April | 170,503 | 178,488 | 175,958 | 179,142 | 189,282 |
| Change in Debt (In Year) | 7,985 | (2,530) | 3,184 | 10,140 | 4,207 |
| Other long-term liabilities (OLTL) at 1st April | 74,059 | 128,631 | 124,224 | 119,675 | 114,901 |
| Change in OLTL (In Year) | 54,572 | (4,407) | (4,549) | (4,774) | (5,050) |
| **Actual gross debt at 31st March** | **307,119** | **300,182** | **298,817** | **304,183** | **303,340** |
| **The Capital Financing Requirement** | **306,433** | **304,389** | **301,781** | **309,082** | **306,056** |
| **Under / (Over) borrowing** | **(686)** | **4,207** | **2,964** | **4,899** | **2,716** |

The following graph shows the the CFR compared to the expected net debt in each of the years and the under / (over) borrowed position, also shown is the Council's authorised limit for debt and it's operational boundary (see paragraph 2.4 above):



Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not taken for revenue or speculative purposes.

The Head of Strategic Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.2 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services view on its prospects for interest rates.

| Link Asset Services Interest Rate View | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 1.75% | 2.00% |
| 3 Month LIBID | 0.90% | 1.00% | 1.10% | 1.20% | 1.30% | 1.40% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% |
| 6 Month LIBID | 1.00% | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% |
| 12 Month LIBID | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% |
| 5yr PWLB Rate | 2.10% | 2.20% | 2.20% | 2.30% | 2.30% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.80% |
| 10yr PWLB Rate | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% |
| 25yr PWLB Rate | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.50% | 3.60% | 3.60% |
| 50yr PWLB Rate | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% |

Link Asset Services have also provided commentary in relation to interest rates and this is included within Appendix 3.

### 3.3 Investment and borrowing rates

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

Borrowing interest rates have been volatile so far in 2018/19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### 3.4 Borrowing strategy

Over the past few years, the Council has benefited from lower borrowing costs due to low interest rates, in particular utilisation of short term temporary borrowing and internal borrowing (use of existing cash).

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. Any decisions will be reported to the appropriate committee at the next available opportunity. In normal circumstances the main sensistivies of the forecast are likely to be the two scenarios noted below. The Head of Strategic Finance, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting a pragmatic approach to changing circumstances.

- If it was felt that there was a significant risk of a sharp FALL in long and short term rates then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

### 3.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 3.6 Debt rescheduling

At this time, and due to the early repayment penalities imposed by PWLB, there are limited opportunities for debt rescheduling. However, this position will be kept under regular review.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the appropriate Committee at the earliest meeting following its action.

# 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy

The Council's investment policy implements the requirements of the Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the CIPFA TM Code").

The above regulations and guidance place a high priority on the management of risk. **The Council's investment priorities will be security first, liquidity second and then return.** This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of types of investment instruments that are permitted investments authorised for use in Appendix 5. Appendix 6 expands on the risks involved in each type of investment and the mitigating controls.
5. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix 7.
6. Transaction limits are set for each type of investment in Appendix 5.
7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.5).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2018/19 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (This area is currently under review by LASAAC and the Scottish Government. Members will be updated when there is further news.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

### 4.2 Creditworthiness policy

The Council recognises the vital importance of credit-worthiness checks on the counterparies is uses for investments.

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparies are supplemented with the following further overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Further explanation of the approach for creditworthiness used by Link Asset Services is found in Appendix 7.

**UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

### 4.3 Country and sector limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

### 4.4 Investment strategy

**In-house funds:** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

**Investment returns expectations**

Bank Rate is forecast to stay flat at 0.75% until quarter 4 2018/19 and not to rise above 1.50% by quarter 1 2021/22. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| | **Now** |
|---|---|
| 2018/19 | 0.60% |
| 2019/20 | 0.90% |
| 2020/21 | 1.25% |
| 2021/22 | 1.50% |
| 2021/22 | 1.75% |
| 2022/23 | 2.00% |
| Later years | 2.75% |

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

**4.5 Investment treasury indicator and limit**

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

| **Maximum principal sums invested for longer than 365 days** | | | |
|---|---|---|---|
| **£m** | **2019/20** | **2020/21** | **2021/22** |
| Principal sums invested for longer than 365 days | 20 | 20 | 20 |

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days).

### 4.6 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded.

### 4.7 End of year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

# 5 APPENDICES

**Appendix 1 – Capital Prudential and Treasury Indicators 2019/20 – 2021/22**

### 1. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

**Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| % | 2017/18 Actual | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|---|
| Ratio | 7.43% | 6.18% | 5.83% | 5.84% | 5.89% |

### 2. Maturity structure of borrowing

The purpose of this indicator is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if this is set to be too restrictive it will impair the opportunities to reduce costs/ improve performance. The indicator is "Maturity structure of borrowing". These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicator and limits.

| Maturity structure of fixed interest rate borrowing 2019/20 | | |
|---|---|---|
| | **Lower** | **Upper** |
| Under 12 months | 0% | 30% |
| 12 months to 2 years | 0% | 30% |
| 2 years to 5 years | 0% | 30% |
| 5 years to 10 years | 0% | 40% |
| 10 years to 20 years | 0% | 80% |
| 20 years to 30 years | 0% | 80% |
| 30 years to 40 years | 0% | 80% |

| | | |
|---|---|---|
| 40 years to 50 years | 0% | 80% |
| **Maturity structure of variable interest rate borrowing 2019/20** | | |
| | **Lower** | **Upper** |
| Under 12 months | 0% | 30% |
| 12 months to 2 years | 0% | 30% |
| 2 years to 5 years | 0% | 30% |
| 5 years to 10 years | 0% | 30% |
| 10 years to 20 years | 0% | 30% |
| 20 years to 30 years | 0% | 30% |
| 30 years to 40 years | 0% | 30% |
| 40 years to 50 years | 0% | 30% |

The interest rate exposure in respect of the Council's external debt will be monitored on an ongoing basis by keeping the proportion of variable interest rate debt at an appropriate level given the total amount of external debt and the interest rate environment within which the Council is operating. When interest rates are increasing the Council will look to move to fixed rate borrowing and if interest rates are likely to fall then the level of variable rate borrowing will be increased to minimise future interest payments.

**Appendix 2 – Detailed Current Portfolio Position**

| TREASURY PORTFOLIO | | | | | |
|---|---|---|---|---|---|
| | | Actual | Actual | Current | Current |
| | | **31.3.18** | **31.3.18** | **31.01.19** | **31.01.19** |
| **Treasury investments** | | **£000** | **%** | **£000** | **%** |
| Banks | Clydesdale Bank | 914 | 1% | 693 | 1% |
| | Bank of Scotland | 2,500 | 4% | 5,000 | 6% |
| | Goldman Sachs | 7,500 | 12% | 0 | 0% |
| | Helaba - Landesbank Hessan-Thuringen | 7,500 | 12% | 5,000 | 6% |
| | Toronto Dominion Bank | 5,000 | 8% | 0 | 0% |
| | Qatar National Bank | 7,500 | 12% | 10,000 | 11% |
| | Commonwealth Bank of Australia | 7,500 | 12% | 5,000 | 6% |
| | Santander | 0 | 0% | 10,000 | 11% |
| | ANZ Banking Group/London | 0 | 0% | 7,500 | 9% |
| | Bayerische Landesbank | 0 | 0% | 5,000 | 6% |
| | DBS Bank | 0 | 0% | 5,000 | 6% |
| | First Abu Dahbi Bank | 0 | 0% | 5,000 | 6% |
| | | 38,414 | 59% | 58,193 | 67% |
| Building Societies - rated | Nationwide Building Society | 0 | 0% | 5,000 | 6% |
| Local Authorities | Glasgow City Council | 5,000 | 8% | 0 | 0% |
| Money Market Funds | Aberdeen Liquidity Sterling Fund Class L1 | 5,500 | 8% | 5,500 | 6% |
| | BNP Paribas Inticast Fund | 5,500 | 8% | 3,000 | 3% |
| | Federated | 1,250 | 2% | 0 | 0% |
| | CCLA | 0 | 0% | 5,000 | 6% |
| | Insight Liquidity Fund (Class 3) | 1,750 | 3% | 500 | 1% |
| | | 14,000 | 22% | 14,000 | 16% |
| Certificates of Deposit | Royal Bank of Scotland | 7,500 | 12% | 5,000 | 6% |
| | National Westminster Bank Plc | 0 | 0% | 5,000 | 6% |
| | | 7,500 | 12% | 10,000 | 11% |
| **Total Treasury Investments** | | **64,914** | **100%** | **87,193** | **100%** |

| | | Actual<br>**31.3.18** | Actual<br>**31.3.18** | Current<br>**31.01.19** | Current<br>**31.01.19** |
|---|---|---|---|---|---|
| **Treasury external borrowing** | | | | | |
| PWLB | | 127,286 | 71% | 124,843 | 71% |
| LOBOs | Commerzbank Finance & Covered Bonds S.A. | 13,000 | 7% | 13,000 | 7% |
| | FMS Wertmanagement | 5,255 | 3% | 5,255 | 3% |
| | Bayerische Landesbank | 21,000 | 12% | 21,000 | 12% |
| | | 39,255 | 22% | 39,255 | 22% |
| Market | Barclays (formerly LOBO) | 10,000 | 6% | 10,000 | 6% |
| | Prudential assurance co | 1,000 | 1% | 1,000 | 1% |
| | | 11,000 | 6% | 11,000 | 6% |
| Special | Prudential assurance co | 17 | 0% | 15 | 0% |
| | Salix Finance Ltd | 320 | 0% | 281 | 0% |
| | | 337 | 0% | 296 | 0% |
| Temporary Borrowing | | 577 | 0% | 579 | 0% |
| Local Bonds | | 33 | 0% | 33 | 0% |
| **Total External Borrowing** | | **178,488** | **100%** | **176,006** | **100%** |
| **Net Treasury Investments / (Borrowing)** | | **(113,574)** | | **(88,813)** | |

## Appendix 3 – Interest Rate Forecasts and Commentary Provided by Link Asset Services (at 08.01.19)

| Link Asset Services Interest Rate View | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Rate View | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 1.75% | 2.00% |
| 3 Month LIBID | 0.90% | 1.00% | 1.10% | 1.20% | 1.30% | 1.40% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% |
| 6 Month LIBID | 1.00% | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% |
| 12 Month LIBID | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% |
| 5yr PWLB Rate | 2.10% | 2.20% | 2.20% | 2.30% | 2.30% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.80% |
| 10yr PWLB Rate | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% |
| 25yr PWLB Rate | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.50% | 3.60% | 3.60% |
| 50yr PWLB Rate | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% |
| **Bank Rate** | | | | | | | | | | | | | |
| Link Asset Services | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 1.75% | 2.00% |
| Capital Economics | 0.75% | 1.00% | 1.25% | 1.50% | 1.70% | 1.75% | 2.00% | 2.00% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | |
| Link Asset Services | 2.10% | 2.20% | 2.20% | 2.30% | 2.30% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.80% |
| Capital Economics | 2.03% | 2.15% | 2.40% | 2.65% | 2.70% | 2.75% | 2.80% | 2.85% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | |
| Link Asset Services | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% |
| Capital Economics | 2.43% | 2.55% | 2.80% | 3.05% | 3.05% | 3.05% | 3.05% | 3.05% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | |
| Link Asset Services | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.50% | 3.60% | 3.60% |
| Capital Economics | 2.96% | 3.08% | 3.33% | 3.58% | 3.53% | 3.48% | 3.43% | 3.38% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | |
| Link Asset Services | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% |
| Capital Economics | 2.78% | 2.90% | 3.15% | 3.40% | 3.40% | 3.40% | 3.40% | 3.40% | - | - | - | - | - |

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

**Appendix 4 – Economic Background Provided by Link Asset Services (at 08.01.19)**

**GLOBAL OUTLOOK. World growth** has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

**Inflation** has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

**KEY RISKS - central bank monetary policy measures**
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

**The key issue now** is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

**UK.** The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in

GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

**Inflation.** The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**USA.** President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2 % in November, However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

**Eurozone.** Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

**China.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

**Japan** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

**Emerging countries.** Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

## INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

### The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

### Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios

and raises the question of whether they will need to raise fresh capital to plug the gap.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates**

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond

yields in the US, which could then spill over into impacting bond yields around the world.

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## Appendix 5 - Treasury Management Practice (TMP1) Permitted Investments

This Council approves the following forms of investment instrument for use as permitted investments as set out in table 1.

**Treasury risks**
All the investment instruments in tables 1 and 2 are subject to the following risks: -

- **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

- **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1 / 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

- **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

- **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instrument have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown): - (Capita Asset Services note – please specify any such instruments should you use them)

- **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

**Controls on treasury risks**

- **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.2 and 4.3.

- **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

- **Market risk:** this authority purchases Certificates of Deposit (CD's), as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional circumstances, they can be quickly sold at the current market value, (which may vary from the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.

- **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 4.4.

- **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. All types of investment instruments

**Unlimited investments**

Regulation 24 states that an investment can be shown in tables 1 and 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The authority has given the following types of investment an unlimited category: -

- **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

- **High credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £10m of the total portfolio can be placed with any one institution or group at any one time.

**Objectives of each type of investment instrument**

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

**Deposits**

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

- **Term deposits with high credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that no more than £10m of the total portfolio can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

- **Call accounts with high credit worthiness banks and building societies.** The objectives are as for term deposits above. but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

- **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

**DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP**

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

- **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for term deposits in the previous section, but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.
- **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

**COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)**

- **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

- **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

- **Ultra short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

- **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

- **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

**SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS**

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills..

- **Treasury bills.** These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

- **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

- **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail.** This is similar to a gilt due to the explicit Government guarantee.

- **Sovereign bond issues (other than the UK govt) denominated in Sterling**. As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

- **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

**SECURITIES ISSUED BY CORPORATE ORGANISATIONS**

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

**OTHER**

**Property fund.** This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc, a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

**<u>Table 1: permitted investments in house – Common Good</u>**

This table is for use by the in house treasury management team.

### 1.1 Deposits

| | * Minimum Credit Criteria / colour banding | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Debt Management Agency Deposit Facility | -- | term | no | 100 | 2 years |
| Term deposits – local authorities | -- | term | no | 100 | 2 years |
| Call accounts – banks and building societies | Green | instant | no | 100 | Call |
| Term deposits – banks and building societies | Green | term | no | 100 | 2 years |
| Fixed term deposits with variable rate and variable maturities: - Structured deposits. | Green | term | no | 50 | 2 years |
| Collateralised deposit (see note 1) | UK sovereign rating | term | no | 50 | 1 year |

*Note 1. As collateralised deposits are backed by e.g. AAA rated local authority LOBOs, this investment instrument is effectively a AAA rated investment*

### 1.2 Deposits with counterparties currently in receipt of government support / ownership

| | * Minimum Credit Criteria / colour banding | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| UK part nationalised banks | Blue | term | no | 100 | 1 Year |
| Banks part nationalised by high credit rated (sovereign rating) countries – non UK | UK Sovereign Rating | term | no | 100 | 1 Year |
| Fixed term deposits with variable rate and variable maturities: - Structured deposits | Green | term | yes | 100 | 1 Year |

### 1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

| | * Minimum Fund Rating | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| 1. Government Liquidity Funds | AAA | instant | No see note 1 | 100 | 1 Year |
| 2a. Money Market Funds CNAV | AAA | instant | No see note 1 | 100 | 1 Year |
| 2b. Money Market Funds LVNAV | AAA | Instant to T+5 | No see note 1 | 100 | 1 Year |
| 2c. Money Market Funds VNAV | AAA | instant to T+5 | No see note 1 | 100 | 1 Year |
| 3. Ultra short dated bond funds with a credit score of 1.25 | AAA | T+1 to T+5 | yes | 100 | 1 Year |
| 4. Ultra short dated bond funds with a credit score of 1.5 | AAA | T+1 to T+5 | yes | 100 | 1 Year |
| 5. Bond Funds | AAA | T+2 or longer | yes | 100 | 1 Year |
| 6. Gilt Funds | AAA | T+2 or longer | yes | 100 | 1 Year |

*Note 1. The objective of MMFs is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.*

### 1.4 Securities issued or guaranteed by governments

| | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Treasury Bills | UK sovereign rating | Sale T+1 | yes | 100 | 1 Year |
| UK Government Gilts | UK sovereign rating | Sale T+1 | yes | 100 | 1 Year |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail | UK sovereign rating | Sale T+3 | yes | 100 | 1 Year |
| Sovereign bond issues (other than the UK govt) | AAA | Sale T+1 | yes | 80 | 1 Year |
| Bonds issued by multilateral development banks | AAA | Sale T+1 | yes | 80 | 1 Year |

### 1.5 Securities issued by corporate organisations

| | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Certificates of deposit issued by banks and building societies | Green | Sale T+0 | yes | 50 | 2 Years |
| Commercial paper other | Green | Sale T+0 | yes | 20 | 2 Years |
| Floating rate notes | Green | Sale T+0 | yes | 20 | 2 Years |
| Corporate Bonds other | Green | Sale T+3 | yes | 20 | 2 Years |

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

### 1.6 Other

| | * Minimum Credit Criteria / fund rating | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Property funds | -- | T+4 | yes | 100 | 5 Years |

**<u>Table 2: permitted investments for use by external fund managers – Common Good</u>**

### 2.1 Deposits

| | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Term deposits – local authorities | -- | term | no | 100 | 2 Years |
| Call accounts – banks and building societies | Green | instant | no | 100 | Call |
| Term deposits – banks and building societies | Green | term | no | 100 | 2 Years |
| Collateralised deposit | UK sovereign rating | term | no | 50 | 1 Year |

### 2.2 Deposits with counterparties currently in receipt of government support / ownership

| | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| UK part nationalised banks | Blue | Term or instant | no | 100 | 1 Year |
| Banks part nationalised by high credit rated (sovereign rating) countries – non UK** | UK sovereign rating | Term or instant | no | 100 | 1 Year |

*If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.*

### 2.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

| | * Minimum Fund Rating | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| 1. Government Liquidity Funds | AAA | instant | No see note 1 | **100** | **1 Year** |
| 2a. Money Market Funds CNAV | AAA | instant | No see note 1 | **100** | **1 Year** |
| 2b. Money Market Funds LVNAV | AAA | instant to T+5 | No see note 1 | **100** | **1 Year** |
| 2c. Money Market Funds VNAV | AAA | instant to T+5 | No see note 1 | **100** | **1 Year** |
| 3. Ultra short dated bond funds with a credit score of 1.25 | AAA | T+1 to T+5 | yes | **100** | **1 Year** |
| 4. Ultra short dated bond funds with a credit score of 1.5 | AAA | T+1 to T+5 | yes | **100** | **1 Year** |
| 5. Bond Funds | AAA | T+1 to T+5 | yes | **100** | **1 Year** |
| 6. Gilt Funds | AAA | T+1 to T+5 | yes | **100** | **1 Year** |

*Note 1. The objective of these funds is to maintain the net asset value but they hold assets which can vary in value. However, the credit rating agencies require the fluctuation in unit values held by investors to vary by almost zero.*

### 2.4 Securities issued or guaranteed by governments

| | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Treasury Bills | UK sovereign rating | Sale T+1 | yes | 100 | 1 Year |
| UK Government Gilts | UK sovereign rating | Sale T+1 | yes | 100 | 1 Year |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail | UK sovereign rating | Sale T+3 | yes | 100 | 1 Year |
| Sovereign bond issues (other than the UK govt) | AAA | Sale T+1 | yes | 80 | 1 Year |
| Bonds issued by multilateral development banks | AAA | Sale T+1 | yes | 80 | 1 Year |

### 2.5 Securities issued by corporate organisations

| | * Minimum Credit Criteria | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Certificates of deposit issued by banks and building | Green | Sale T+1 | yes | 50 | 1 year |
| Commercial paper other | Green | Sale T+1 | yes | 50 | 1 year |
| Corporate Bonds other | Green | Sale T+3 | yes | 20 | 1 year |
| Floating Rate Notes | Green | Sale T+1 | yes | 20 | 1 year |

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

### 2.6 Other

| | * Minimum Credit Criteria / fund rating | Liquidity risk | Market risk | Max % of total investments | Max. maturity period |
|---|---|---|---|---|---|
| Property funds | -- | T+4 | yes | 20 | 5 Years |

**Appendix 6 – Treasury Management Practice (TMP2) Credit and Counterparty Risk Management**

The following table is for use by the Treasury Team and is a list of current counterparties. However, the use of counterparties depends on credit ratings and the Council may stop using certain counterparties and may stop using certain counterparties and/or decide to use alternative counterparties within its permitted investments. If for unavoidable short term operation reasons, limits are breached this will be communicated to management immediately.

**The Monitoring of Investment Counterparties** - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita Asset Services, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Strategic Finance, and if required new counterparties which meet the criteria will be added to the list.

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits | Common Good Limits |
|---|---|---|---|---|
| **Cash type instruments** | | | | |
| a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)** | This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months. | Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. | £unlimited, maximum 6 months. | £unlimited, maximum 6 months. |
| b. Deposits with other local authorities or public bodies **(Very low risk)** | These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the | Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment.<br>Non- local authority deposits will follow the approved credit rating criteria. | £unlimited, maximum 1 year. | £unlimited, maximum 1 year. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits | Common Good Limits |
|---|---|---|---|---|
| | agreement of the counterparty, and penalties can apply.<br><br>Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria. | | | |
| c. Money Market Funds (MMFs) – CNAV/LVNAV/VNAV**(Low to very low risk)** | Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments. | Funds will only be used where the MMFs has a "AAA" rated status from either Fitch, Moody's or Standard and Poor's. | £10m per fund | 100% |
| d. Ultra short dated bond funds **(low risk)** | Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments. | Funds will only be used where the have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's. | £10m | 100% |
| e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)** | These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor'sDay to day investment dealing with this criteria will be further strengthened by use of additional market intelligence. | As shown in the counterparty section criteria above. | As shown in the counterparty section criteria above. |
| f. Term deposits with financial institutions (banks and building | These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured | As shown in the counterparty | As shown in the counterparty |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits | Common Good Limits |
|---|---|---|---|---|
| societies) **(Low to medium risk depending on period & credit rating)** | above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply. | primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence. | section criteria above. | section criteria above. |
| g. Government Gilts and Treasury Bills **(Very low risk)** | These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity. | Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures. | £10m maximum 1 year. | 100% maximum 1 year. |
| h. Certificates of deposits with financial institutions **(Low risk)** | These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | £10m per counterparty maximum 1 year. | 20% maximum 1 year. |
| i. Structured deposit facilities with banks and building societies | These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured | As shown in the counterparty | As shown in the counterparty |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits | Common Good Limits |
|---|---|---|---|---|
| (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)** | above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply). | primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | section criteria above. | section criteria above. |
| j. Corporate bonds **(Medium to high risk depending on period & credit rating)** | These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low. | The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. . Corporate bonds will be restricted to those meeting the base criteria.<br><br>Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. | £5m and maximum 1 year. | £20% and maximum 1 year. |
| Other types of investments | | | | |
| a. Investment properties | These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids). | In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio.<br><br>Property holding will be re-valued regularly and reported annually with gross and net rental streams. | £10m | 20%. |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits | Common Good Limits |
|---|---|---|---|---|
| b. Loans to third parties, including soft loans | These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid. | Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. | £10m and maximum 5 years. | 10% and maximum 5 years. |
| c. Shareholdings in a local authority company | These are service investments which may exhibit market risk and are likely to be highly illiquid. | Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | 50% | 20% |
| d. Non-local authority shareholdings | These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid. | Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | 5% | 100% |
| e. Loans to third parties as part of the Council's Empty Homes Strategy | These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid. | Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower. | £1.5m and a maximum of 10 years. | N/A |

| Type of Investment | Treasury Risks | Mitigating Controls | Council Limits | Common Good Limits |
|---|---|---|---|---|
| f. Loans to third parties as part of the Council's SHF Front Funding Facility | These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid. | Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower. | £5m and a maximum of 3 years. | N/A |
| g. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's | These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid. | Each third party loan requires Head of Strategic Finance approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower. | £5m and a maximum of 30 years. | N/A |
| h. Hub Co sub debt | These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be highly illiquid. | Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss. | £10m | N/A |
| i. Investment in a project run by a Local Authority or Local Authority Joint Committee | These are investments which may exhibit market risks and will only be considered for medium to longer term investments | Each investment requires approval by the Head of Strategic finance up to £250,000, and, above this level, member approval. Each application will be supported by the service rationale behind the investment and the likelihood of loss. | £10m | N/A |

## Appendix 7 – Creditworthiness policy

### Service and Information provided by Link Asset Services

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

Credit watches and credit outlooks from credit rating agencies

Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings

Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit rates, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration of investments.

All credit ratings are monitored from a weekly list which can be updated daily by Link Asset Services. The Council is alerted to the changes to ratings of all three agencies through the use of Link Asset Services credit worthiness service.

If a downgrade rsults in the counterparty/investment scheme no longer meeting the Council's minimum criteria, immediate consideration will be given to whether funds should be withdrawn from this counterparty and the timescale for doing this.

In addition to the use of the credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via Link Asset Service's Passport website that the Council can access. Extreme market movements may result in a downgrade of an institution or removal from the Councils lending list.

Based on the Link Asset Services approach, the Council will therefore use counterparties within the following durational bands:

| | |
|---|---|
| Yellow | 5 years* |
| Dark pink | 5 years for Ultra short dated bond funds with a credit score of 1.25 |
| Light pink | 5 years for Ultra short dated bond funds with a credit score of 1.5 |
| Purple | 2 years |
| Blue | 1 year (only applies to nationalised or semi nationalised UK banks) |
| Orange | 1 year |
| Red | 6 months |
| Green | 100 days |
| No colour | Not to be used |

| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
|---|---|---|---|---|---|---|---|---|
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

*The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

No more than £10m can be invested with any single counterparty. The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing deposits with the Council's bankers is currently £5m.

The Council can invest an unlimited amount of money I the Debt Management Agency Deposit Facility (operated by the Debt Management Office which is part of HM Treasury). The longest period for a term deposit with the DMADF is 6 months.

**Appendix 8 – Approved Countries for Investments (at 08.01.19)**

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar

## Appendix 9 – Treasury Management Scheme of Delegation

### The Council

- Overall responsibility for Treasury Management Strategy.
- Adoption of Treasury Policy Statements.
- Receive an Annual Report and other reports on the Treasury Management Operation and on the exercise of delegated treasury management powers.

### The Policy and Resources Committee

- Responsibility for the overall investment of money under the control of the Council.
- Keeping under review the level of borrowing.
- Approval of Annual Strategy Statement.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of Treasury Policy Statements.
- Implementation and monitoring of Treasury Management Policies and Practices.

### The Audit and Scrutiny Committee

- Review the overall internal and management control framework related to the treasury function.
- Review internal and external audit reports related to treasury management.
- Review provision in the internal and external audit plans to ensure there is adequate audit coverage of treasury management.
- Monitor progress with implementing recommendations in internal and external audit reports.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## Appendix 10 – The Treasury Management Role of the Section 95 Officer

**The Head of Strategic Finance:**

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Suubmitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Reviewing and considering risk management in terms of treasury activities.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following: -
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that* *appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

**The nominated Elected Member (Policy Lead for Strategic Finance and Capital):**

- Acting as spokesperson for treasury management.
- Taking a lead for elected Members in overseeing the operation of the treasury function.
- Review the treasury management policy, strategy and reports.
- Support and challenge the development of treasury management.

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